

# Q1 2020



# City of Capitola Sales Tax *Update*

Second Quarter Receipts for First Quarter Sales (January - March 2020)

## Capitola In Brief

Capitola's receipts from January through March were 10.2% below the first sales period in 2019; much of this decline was caused by some companies were permitted an extra 90-days to file tax returns under the governor's recent Executive Order. Excluding reporting aberrations, actual sales were up 7.0%.

County Officials declared a shelter in place in mid-March; numerous businesses closed and consequences were significant. Restaurants were down 12.7%, led by a 15% drop in casual dining. General consumer goods also saw large declines of 19.6%.

A large one-time boost in business/industry offset some of the declines. The City's allocation from the countywide pool grew 22%; the growth in the pool can be attributed to new revenue from the Wayfair decision and increase in online shopping.

District taxes Measure F and Measure O also saw declines generating \$412,326; down 7.6%.

Net of aberrations, taxable sales for all of Santa Cruz County were flat over the comparable time period; the Central Coast region was down 2.7%.

## SALES TAX BY MAJOR BUSINESS GROUP



\*Allocation aberrations have been adjusted to reflect sales activity

### TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

AJs Fuel Market Of Capitola	Pizza My Heart Ross
Bed Bath & Beyond	Royal Wholesale Electric
Capitola Coast	Santa Cruz Subaru
Capitola Shell	Santa Cruz Toyota
CVS Pharmacy	Shadowbrook
Kohls	Sierra Utility Sales
Lucky	Target
Macys	Toyota Lease Trust
New Leaf Community Market	Trader Joes
Nob Hill General Store	Ulta Beauty
Olive Garden	Verizon Wireless
Outdoor Supply Hardware	Whole Foods Market

### REVENUE COMPARISON

Three Quarters – Fiscal Year To Date (Q3 to Q1)

	2018-19	2019-20
Point-of-Sale	\$4,035,816	\$3,444,411
County Pool	636,908	820,725
State Pool	2,121	2,024
<b>Gross Receipts</b>	<b>\$4,674,845</b>	<b>\$4,267,161</b>
Measure F	\$843,433	\$725,030
Measure O	\$841,528	\$724,226

**Statewide Results**

With stay at home/non-essential business restrictions in place during the last two weeks of the quarter, local one cent tax revenues for the state overall, were 18.8% lower than January to March of 2019. Taxpayer relief programs accounted for much of the decline with receipts down roughly 3.1% after factoring for payment deferrals and other accounting anomalies.

Severe drops in auto sales, general consumer goods, service stations and restaurants were largely offset by new revenue from implementation of the Wayfair v. South Dakota decision that now requires out-of-state retailers to collect and remit Californian's sales and use tax. Other offsets included a surge in online shopping that boosted receipts from the county use tax allocation pools and from online retailers who maintain and ship their inventory from within California.

The food/drug sector also showed strong gains as did many home supply, dollar and discount stores that remained open during the shutdown.

**New Challenges & Opportunities**

Current indicators suggest that overall tax receipts for the April thru June sales period will bottom out at 27% below the second quarter of 2019. The speed of the rebound in sales activity will be dependent on the availability of adequate testing, treatment therapies and ultimately a vaccine. Until then, physical distancing, COVID-19 protocols and supply chain disruptions will create limitations on some operating capacities and the return to work of all employees. Health fears, discounts and liquidation sales may also keep sales tax revenues below pre-pandemic levels until solutions are in place.

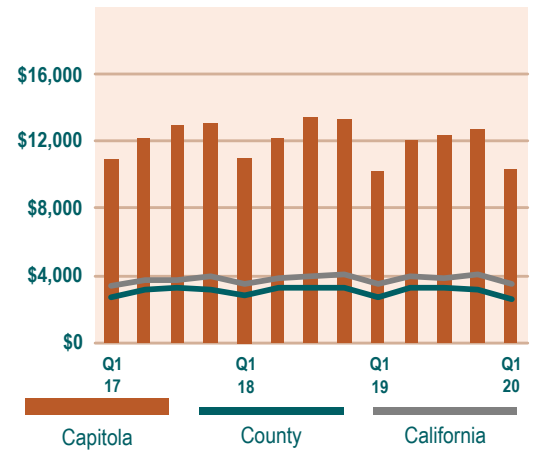
Regardless of when full recovery does occur, reports are that some elements of the economy will be permanently altered. Generation of future tax revenues may require rethinking of local economic strategies.

Over expansion, excessive debt and consumer shifts to online shopping were already resulting in bankruptcies with estimates of up to 25,000 brick-and-mortar store closings by the end of 2020. "Touch and feel" shopping is not going away but retailers see an evolution where in-store shopping is more leisure/recreational oriented with smaller stores offering more show-rooming and delivery/pick-up services. The smaller footprints and lifestyle emphasis offer opportunities to reinstate downtowns and neighborhood centers as economic/social gathering places.

The Pandemic's capture of new online customers and the growing trend of manufacturers and entrepreneurs with new concepts to bypass physical stores and sell directly to the consumer also expands options for agencies without large market populations to generate sales tax through industrial development.

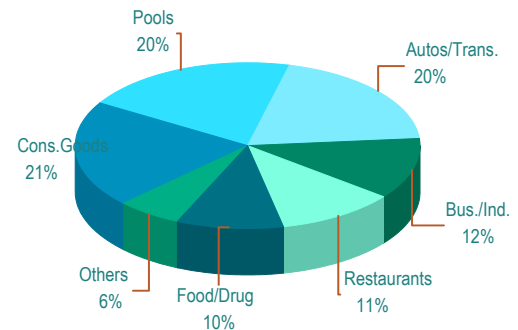
Finally, the Pandemic's disruption of supply chains has also accelerated growing dissatisfaction with overseas arrangements and some reshoring will occur which offers opportunities to leverage a city's existing business base to attract compatible support industries.

**SALES PER CAPITA\***



\*Allocation aberrations have been adjusted to reflect sales activity

**REVENUE BY BUSINESS GROUP**  
Capitola This Quarter\*



\*Allocation aberrations have been adjusted to reflect sales activity

**CAPITOLA TOP 15 BUSINESS TYPES\*\***

Business Type	*In thousands of dollars			
	Capitola Q1 '20*	Change	County Change	HdL State Change
Casual Dining	77.4	-15.1%	-17.7%	-18.8%
Convenience Stores/Liquor	21.1	2.0%	-5.3%	-4.4%
Department Stores	— CONFIDENTIAL —	—	-41.5%	-34.6%
Discount Dept Stores	— CONFIDENTIAL —	—	0.0%	3.2%
Drug Stores	31.7	-3.6%	1.6%	3.4%
Electrical Equipment	— CONFIDENTIAL —	—	59.1%	-7.1%
Electronics/Appliance Stores	23.6	-14.6%	-15.0%	-18.0%
Family Apparel	30.5	-16.3%	-18.0%	-21.1%
Grocery Stores	70.0	1.6%	13.5%	11.8%
Home Furnishings	28.2	-20.6%	-18.5%	-13.0%
New Motor Vehicle Dealers	— CONFIDENTIAL —	—	-5.0%	-10.6%
Quick-Service Restaurants	46.1	-9.9%	-11.7%	-8.5%
Service Stations	48.6	-9.3%	-6.2%	-9.5%
Specialty Stores	30.2	-22.1%	-11.7%	-10.1%
Sporting Goods/Bike Stores	21.9	-5.4%	3.0%	-10.3%
<b>Total All Accounts</b>	<b>1,048.2</b>	<b>-0.1%</b>	<b>-5.2%</b>	<b>-7.3%</b>
<b>County &amp; State Pool Allocation</b>	<b>267.1</b>	<b>47.9%</b>	<b>29.8%</b>	<b>22.4%</b>
<b>Gross Receipts</b>	<b>1,315.3</b>	<b>7.0%</b>	<b>0.1%</b>	<b>-3.0%</b>

\*\* Accounting aberrations such as late payments, fund transfers, and audit adjustments have been adjusted to reflect the quarter in which the sales occurred.